



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Department of Justice*

*For the Two Fiscal Years Ended  
June 30, 2016*

FEBRUARY 2017

LEGISLATIVE AUDIT  
DIVISION

## **LEGISLATIVE AUDIT COMMITTEE**

### **REPRESENTATIVES**

RANDY BRODEHL, CHAIR  
[Randybrodehl57@gmail.com](mailto:Randybrodehl57@gmail.com)

KIM ABBOTT  
[Rep.Kim.Abbott@mt.gov](mailto:Rep.Kim.Abbott@mt.gov)

DANBARTELL  
[Danbartel2@gmail.com](mailto:Danbartel2@gmail.com)

TOM BURNETT  
[Burnett.tom@gmail.com](mailto:Burnett.tom@gmail.com)

VIRGINIA COURT  
[virginacourt@yahoo.com](mailto:virginacourt@yahoo.com)

DENISE HAYMAN  
[Rep.Denise.Hayman@mt.gov](mailto:Rep.Denise.Hayman@mt.gov)

### **SENATORS**

DEE BROWN  
[senatordee@yahoo.com](mailto:senatordee@yahoo.com)

TERRY GAUTHIER  
[Mrmac570@me.com](mailto:Mrmac570@me.com)

BOB KEENAN  
[Sen.Bob.Keenan@mt.gov](mailto:Sen.Bob.Keenan@mt.gov)

MARY McNALLY, VICE CHAIR  
[McNally4MTLeg@gmail.com](mailto:McNally4MTLeg@gmail.com)

J.P. POMNICHOWSKI  
[pomnicho@montanadsl.net](mailto:pomnicho@montanadsl.net)

GENE VUCKOVICH  
[Sen.Gene.Vuckovich@mt.gov](mailto:Sen.Gene.Vuckovich@mt.gov)

MEMBERS SERVE UNTIL A  
MEMBER'S LEGISLATIVE TERM  
OF OFFICE ENDS OR UNTIL A  
SUCCESSOR IS APPOINTED,  
WHICHEVER OCCURS FIRST.

§5-13-202(2), MCA,

FRAUD HOTLINE  
(STATEWIDE)  
1-800-222-4446  
(IN HELENA)  
444-4446  
[ladhotline@mt.gov](mailto:ladhotline@mt.gov)

## **FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2015, was issued March 29, 2016. The Single Audit Report for the two fiscal years ended June 30, 2017, will be issued by March 31, 2018. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
Office of Budget and Program Planning  
Room 277, State Capitol  
P.O. Box 200802  
Helena, MT 59620-0802

Legislative Audit Division  
Room 160, State Capitol  
P.O. Box 201705  
Helena, MT 59620-1705

### **AUDIT STAFF**

JOSEPH ANDRIOLI  
MIKI CESTNIK  
DIEDRA MURRAY  
SHANDELL VANDONSEL

JEANE CARSTENSEN-GARRETT  
NATALIE GIBSON  
KATIE MAJERUS  
HANNAH NISHEK

Reports can be found in electronic format at:

<http://leg.mt.gov/audit>

## LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Joe Murray

February 2017

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Justice (department) for the two fiscal years ended June 30, 2016. The Montana Board of Crime Control (board) was included in the scope of this audit because it is allocated to the department for administrative purposes.

Included in this report are two recommendations for improvements to the department. The first recommendation addresses improvements needed in controls regarding access to the information system used statewide for vehicle licensing and registration. The second recommendation calls for legislative changes needed to clarify inconsistent laws regarding the funding of Highway Patrol Officers' state retirement contributions.

The financial schedules beginning on page A-3 and the related notes are consolidated financial schedules for the department and board for each of the two years ended June 30, 2016. In our Independent Auditor's Report on page A-1 we issued unmodified opinions on each of the six financial schedules. An unmodified opinion means the reader may rely upon the fairness of the information presented.

The department's and board's written response to the audit report is included in the report on page C-1 and C-2, respectively. We thank the Attorney General and his staff and the Executive Director of the board and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Angus Maciver*

Angus Maciver  
Legislative Auditor



## TABLE OF CONTENTS

Elected, Appointed, and Administrative Officials.....	ii
Report Summary .....	S-1
<b>CHAPTER I – INTRODUCTION.....</b>	<b>1</b>
Introduction.....	1
Background.....	2
Boards, Councils, and Programs.....	2
Department Divisions.....	3
Prior Audit Recommendations.....	4
<b>CHAPTER II – FINDINGS AND RECOMMENDATIONS.....</b>	<b>5</b>
MERLIN Access Controls.....	5
Contradictory State Laws for Funding of Montana Highway Patrol State Employer Contributions.....	6
<b>INDEPENDENT AUDITOR’S REPORT AND DEPARTMENT FINANCIAL SCHEDULES</b>	
Independent Auditor’s Report .....	A-1
Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2016.....	A-3
Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2015.....	A-4
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2016.....	A-5
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2015.....	A-6
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2016.....	A-7
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2015.....	A-8
Notes to the Financial Schedules .....	A-9
<b>REPORT ON INTERNAL CONTROL AND COMPLIANCE</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with <i>Government Auditing Standards</i> .....	B-1
<b>DEPARTMENT AND BOARD RESPONSE</b>	
Department of Justice .....	C-1
Board of Crime Control.....	C-3

## ELECTED, APPOINTED, AND ADMINISTRATIVE OFFICIALS

**Department of Justice** Tim Fox, Attorney General

Mike Milburn, Chief of Staff

Division Administrators

Liz Bangerter, Central Service (effective January 1, 2017)

Christi Jacobsen, Central Services (through December 31, 2016)

Joe Chapman, Information Technology Services

Phil Kinsey, Forensic Sciences

Colonel Tom Butler, Highway Patrol

Bryan Lockerby, Criminal Investigation

Sarah Garcia, Motor Vehicle

Angela Nunn, Gambling Control (effective January 1, 2017)

Rick Ask, Gambling Control (through December 31, 2016)

Jon Bennion, Legal Services

**Montana Board of  
Crime Control** Deb Matteucci, Executive Director

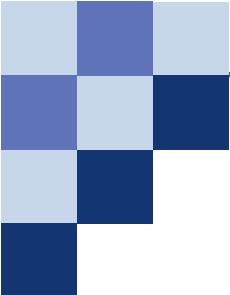
<u>Members</u>	<u>Representing</u>	<u>Term Expires</u>
Laura Obert, Chair	Local Government	1/1/17
Rick Kirn, Vice Chair	Tribal Government	1/1/19
Shellie Aune	Public	1/1/17
Laurie Barron	Educator	1/1/19
Mike Batista	Law Enforcement	1/1/19
Tim Brurud	Youth Justice Advisory	1/1/17
James Cashell	Public	1/1/17
Brenda Desmond	Judge/Judiciary	1/1/19

William Dial	Law Enforcement	1/1/17
Leo Dutton	Local Law Enforcement	1/1/17
Tim Fox	Attorney General	1/1/17
Wyatt Glade	Law Enforcement	1/1/17
Jennie Hansen	Community	1/1/17
Bill Hooks	Criminal Justice Agency	1/1/19
Danna Jackson	Professional & Community Organizations	1/1/17
Beth McLaughlin	Judiciary	1/1/19
Roxanne Ross	Public	1/1/19
Angela Russell	Public	1/1/19

For additional information concerning the Department of Justice, contact:

Liz Bangerter, Central Services Division Administrator  
P.O. Box 201404  
Helena, MT 59620-1404  
(406) 444-5842  
e-mail: LBangerter@mt.gov





## MONTANA LEGISLATIVE AUDIT DIVISION

# FINANCIAL-COMPLIANCE AUDIT

## Department of Justice

### For the Two Fiscal Years Ended June 30, 2016

FEBRUARY 2017

16-18

REPORT SUMMARY

The Department of Justice, under the direction of the Attorney General, has responsibilities that include statewide legal services and counsel, law enforcement, motor vehicles, and public safety. This report contains recommendations to improve controls for access to the information system used by the Motor Vehicle Division and address inconsistent laws for funding of Montana Highway Patrol Officers' state retirement contributions.

## Context

The Department of Justice (department) is comprised of the following eight divisions: Legal Services, Gambling Control, Motor Vehicle, Montana Highway Patrol, Criminal Investigations, Central Services, Information Technology, and Forensic Sciences.

The table below shows the Motor Vehicle and Gambling Control Divisions' revenue collections in fiscal years 2015 and 2016 out of the total revenue of \$245 million and \$269 million, respectively, for the department as shown on the department's consolidated Schedules of Revenues and Transfers-In.

	FY2015	FY2016
Motor Vehicle	\$138 million	\$139 million
Gambling Control	\$60 million	\$61 million
Sub-total	\$198 million	\$200 million

The Motor Vehicle and Gambling Control revenue is approximately 81 percent and 74 percent, respectively for fiscal years 2015 and 2016 of total revenue and transfers-in.

Expenditures for the department total \$128 million and \$141 million, respectively,

in fiscal years 2015 and 2016 as shown on the department's consolidated Schedules of Expenditures and Transfer-Out. See the table below for more details on the primary types of expenditures.

	FY2015	FY2016
Personal Services-All Division	\$63 million	\$65 million
Legal Services Division-Other Services	\$14 million	\$21 million
Motor Vehicle Division-Other Services	\$8 million	\$8 million
Sub-total	\$85 million	\$94 million

The majority of the Legal Services Operating Expenditures relate to the Natural Resource Damage Program contracts for restoration work required by settlement agreements. The majority of the Motor Vehicle Division Other Services expenditures relate to contracts for services for their information system. Sub-totals of these expenditures are approximately 66 percent of the total expenditures and transfers-out for both fiscal years.

*(continued on back)*

## Results

This audit report includes two recommendations to the department. The first issue relates to improvements needed in controls over the information system used by the Motor Vehicle Division. The other recommendation addresses legal compliance with two contradictory laws regarding how the department funds state employer retirement contributions for Highway Patrol Officers.

As part of the audit, we also followed up on the recommendations from the prior audit report. We found the department fully implemented three of the four recommendations and one recommendation was partially implemented. The partially implemented recommendation is pending legislative action and the rule making process. We will follow-up on this issue in the next financial-compliance audit.

Recommendation Concurrence	
Concur	2
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (16-18) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>

Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE

Call toll-free 1-800-222-4446, or e-mail [ladhotline@mt.gov](mailto:ladhotline@mt.gov).

# Chapter I – Introduction

## **Introduction**

We performed a financial-compliance audit of the Department of Justice (department) for the two fiscal years ended June 30, 2016. The objectives of the audit were:

1. To obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvement in the management and internal controls of the department.
2. To determine if the department's consolidated financial schedules present fairly the results of operations and changes in fund equity and property held in trust for the department for each of the fiscal years ended June 30, 2016, and June 30, 2015.
3. To determine if the department complied with selected state and federal laws and regulations.
4. To determine the implementation status of prior audit recommendations.

The scope of our audit included the Montana Board of Crime Control (board), which is allocated to the department for administrative purposes only. The financial activity for the department and the board was consolidated for the audit because the board is a separate business unit on the state's accounting system.

The significant sources of revenue for the department include motor vehicle licenses and permits and tax revenue from gambling operations. Personal services costs and operating expenditures comprise the bulk of the expenditures. Our audit effort focused on auditing these activities. Audit procedures included control testing, testing transactions processed on the state accounting system, sampling, and analytical procedures.

As required by §17-8-101(6), MCA, we are reporting on the reasonableness of fees and charges and on fund equity for the department's Internal Service Fund. By definition, internal service funds provide services on a cost reimbursement basis. The department's only Internal Service Fund is the Agency Legal Services Bureau (ALS). ALS provides legal, hearing examiner, and investigative services to state agency clients on a contract basis. We found that fund equity at both June 30, 2015, and June 30, 2016, was reasonable and fees and charges were reasonable for fiscal year 2015. Because revenues exceeded expenditures in fiscal year 2016, we concluded the fees were not reasonable because they were not commensurate with costs, as required by law.

The fund had a history of declining fund equity and expenses exceeding revenues. The 2015 Legislature did authorize an increase in rates for attorney fees and investigators of approximately 10 percent and 11 percent, respectively, beginning in fiscal year 2016. In addition, according to agency personnel, revenues exceeded their projections in fiscal year 2016 by \$210,223 and expenses were less due to vacant positions.

Because the department is actively monitoring this fund and they have flexibility to charge less than the maximum rates allowed in law, we make no recommendations at this time. We will follow up and report on this fund during our next financial-compliance audit.

## **Background**

The Attorney General, who is elected to serve a four-year term, heads the department. The department's primary functions are to provide effective statewide law enforcement, provide legal services on behalf of the state, and improve public safety. The department was authorized a total of 759.82 full-time equivalent (FTE) employees in fiscal year 2016.

## **Boards, Councils, and Programs**

**The Montana Board of Crime Control:** The Board of Crime Control (board) is composed of 18 members appointed by the Governor and confirmed by the Senate. The board's expenditure activity is presented in the department's financial schedules on pages A-7 and A-8 as the Justice System Support Service Program. The board prepares and implements an annual plan for strengthening Montana's criminal and juvenile justice systems. The board provides support services to criminal justice agencies including data collection and research. The board is also responsible for the administration of various state and federal programs to help reduce crime and provide victim assistance and support.

**Natural Resource Damage Program:** The program exists within the department and is responsible for preparing natural resource damage assessments and lawsuits in order to recover damages to natural resources caused by releases of hazardous substances and developing and implementing restoration plans that guide the expenditures of settlement proceeds on restoration projects. The Natural Resource Damage Program operates within the Legal Services Division.

**The Public Safety Officer Standards and Training Council:** The council is composed of 13 members appointed by the Governor. The council's expenditure activity is included in the department's financial schedules on pages A-7 and A-8 in the Post Council Program. The council is responsible for establishing basic and

advanced qualification and training standards for employment of Montana's public safety officers. The council hires its own personnel and independently administers the conduct of its business.

## **Department Divisions**

**Legal Services:** provides legal research and analysis for the Attorney General; legal counsel for state government and state officials, bureaus, and boards; legal assistance to local governments; legal assistance, training, and support for county prosecutors; assistance through the offices of Consumer Protection and Victim Services Bureau; and legal advice and support for all state agencies through the Agency Legal Services Bureau.

**Gambling Control:** licenses and regulates gambling activities and enforces gambling laws in the state of Montana. The division collects license fees, gambling taxes, and investigates applications and complaints relating to alcoholic beverage licensing.

**Motor Vehicle:** licenses individual and commercial drivers, administers all driver license records, and issues motor vehicle registrations and titles. The Motor Vehicle Division (MVD) includes the Title and Registration Bureau and driver licensing offices located statewide.

**Montana Highway Patrol:** enforces commercial vehicle regulations and general traffic laws, investigates accidents and auto thefts, inspects vehicles, provides motorist assistance, and administers a drug interdiction program with a K-9 unit.

**Criminal Investigation:** includes the administration, management, and coordination of criminal investigative services and training performed by the Investigations Bureau, the Narcotics Bureau, the Children's Justice Center, and the Law Enforcement Academy Bureau. The division maintains Montana's Sexual or Violent Offender Registry, the state reporting of criminal records and fingerprint information, and Montana's Criminal Justice Information Network.

**Central Services:** provides centralized accounting, administrative, budgetary, human resources, payroll, and fiscal support for the department.

**Information Technology Service:** provides a full range of services for the department and the criminal justice community. The division maintains several statewide criminal justice systems, including the state criminal history records system and the state criminal justice information network, that link law enforcement agencies in Montana with various state, regional, and national criminal justice databases. It also maintains

several noncriminal justice computer systems, including the Montana Enhanced Registration and Licensing Information Network (MERLIN) and the Driver Control System.

**Forensic Services:** performs scientific analyses of evidence submitted by law enforcement officials, coroners, and state agencies. The division promotes forensic science training, scientific criminal investigations, and manages a statewide system of death investigations.

### **Prior Audit Recommendations**

Our office performed the department's financial-compliance audit for the two fiscal years ended June 30, 2014. This report included four recommendations to the department.

The department fully implemented three recommendations concerning charging expenditures transactions against an appropriation, segregation of duties for entering and approving transactions on the state's accounting records, and errors in the pollution remediation liability. The recommendation that is not fully implemented was a three-part recommendation regarding compliance with three different state laws. One of the three was implemented by the department. The other two parts of the recommendation concern administrative rules for ignition interlock devices and contradictory statutory requirement for funding of the Montana Highway Patrol expenses. In both cases, the department has taken steps to implement, however, until the administrative rules are finalized through the rule making process and legislation has been enacted regarding the funding of Montana Highway Patrol expenses, the recommendation requiring compliance is not fully implemented. The department plans to seek legislation to address the issue in the 2017 Legislative Session. We will follow up and report on, as applicable, the status of this recommendation in the next audit report.

The finding included in this report beginning on page 6 relates to a specific restriction in state law regarding paying Montana Highway Patrol employer contributions from a specific fund. The issue in the prior audit was broader regarding a state law that requires all Montana Highway Patrol expenses to be paid from one fund.

## Chapter II – Findings and Recommendations

### MERLIN Access Controls

---

**Improvements are needed to controls governing access to the information system used for vehicle licensing and registration.**

---

The Montana Enhanced Registration and Licensing Information Network (MERLIN) information system is used by the Department of Justice (department) and county personnel for all vehicle licensing and registration transactions. Information recorded in MERLIN is transferred to the state's accounting system. During fiscal years 2015 and 2016, approximately \$277 million in revenue was processed through MERLIN.

Controls governing access to information systems should ensure authorized users have the right to system functionality based on business need while preventing access to nonauthorized users. Controls also need to include a regular review of user rights and timely termination of access rights when appropriate. We identified the following instances of inappropriate access:

- ◆ Forty users with privileged access to MERLIN. Privileged access allows users to modify any other users access and to modify data in MERLIN, including data that determines how financial information is recorded on the state accounting system. Since we brought this to department officials attention, 10 staff were identified requiring this level of access.
- ◆ Four of the forty users with privileged access no longer work at the department and two users changed to different positions at the department that did not require access to the system. Since we brought this to the department's attention, access has been terminated for all six users.

We also found an overall review of access is not occurring regularly. A timely review of access may have identified and corrected the improper access discussed above.

Additional audit procedures were completed on revenue because of the control risks identified and we did not identify any misstatements. However, this does not negate the increased risk of erroneous or fraudulent transactions occurring and not being detected on a timely basis because of inappropriate access.

Management is responsible, and required by state accounting policy, for developing internal controls to record financial activity in accordance with state accounting policy and Generally Accepted Accounting Principles. This responsibility extends to controls established over information systems used by the department. These controls should define how and when access is assigned and removed and provide for a timely review of access to detect and correct inappropriate access.

Department personnel stated the recent reorganization of the department has caused delays in review and update of access. There have also been recent changes in personnel responsible for various aspects of MERLIN, including granting access. Given the changes in the organization and personnel, access controls should be updated and implemented to ensure access assigned to MERLIN is limited based on business needs.

---

**RECOMMENDATION #1**

*We recommend the Department of Justice update and implement access controls over MERLIN to ensure access is limited based on business needs.*

---

## **Contradictory State Laws for Funding of Montana Highway Patrol State Employer Contributions**

---

**From fiscal year 2014 through 2016, the department paid approximately \$3.3 million in state employer contributions from the Highway Patrol Pay & Retention State fund contrary to state law.**

---

During the audit period, two state special revenue funds were used to pay the approximate \$56.4 million of payroll costs (salaries and benefits) of the Montana Highway Patrol. State law provides authority for Highway Patrol payroll costs to be paid from the Highways Special Revenue Fund (gas tax) and a Special Revenue Account, referred to as the Pay Retention Fund (Pay) on the state accounting system. Chapter 421, Laws of 2005, established the Pay Fund to address Highway Patrol Officers' retention problems by providing a funding source to use for salary increases.

For several years, the department has split payroll costs between the two funds by an approximate 75 percent to 25 percent ratio. The 2013 Legislature, through legislation codified in §44-1-504, MCA, added a restriction that excludes state employer retirement contributions from what can be paid from the Pay Fund. Since the restriction took effect, July 1, 2013, the department has paid a total of \$3,300,350 in state employer retirement contributions from this fund, which is contrary to that state law.

Department personnel indicated they were not aware of this new restriction in law regarding employer retirement contributions. Department personnel did provide documentation from the 2013 Legislative Session that indicates the intent of the restriction was to only include the additional 2 percent increase in state employer retirement contributions in the restriction. The increase in retirement contributions

was part of the same legislation as the restriction. The department intends to correct the funding in the accounting records for the additional 2 percent. Regardless of what the department believes the intent of the legislation was, since the 2 percent is not included in the law, their planned correction will not put them in compliance with this law.

In addition, department personnel expressed concerns with affecting the cash balance of the gas tax fund because it is the source used to fund federal highway construction projects at the Montana Department of Transportation. Department officials indicated since the department has authority to pay operating expenditures from the gas tax fund, they could correct the noncompliance by charging the gas tax fund less in operating expense by the same amount of increased state employer retirement contributions. The net effect on both funds total expenditures and cash would be zero.

Another factor to this issue is §19-6-404, MCA, which includes language that employer contributions must be paid from the same source that is used to pay compensation to members. This contradicts the restriction in §44-1-504(3), MCA, and the purpose of the Pay Fund to partially fund Highway Patrol Officers' salaries. We do not believe the department can comply with the purpose of the Pay Fund as defined in state law and comply with requirements in both §44-1-504(3) and §19-6-404, MCA.

Department officials have indicated they are initiating legislation to be introduced to the 2017 Legislature that would clarify the funding for Highway Patrol state employer contributions. The laws could be amended so they are consistent by removing the restrictions in either §44-1-504(3) or §19-6-404(1), MCA.

---

**RECOMMENDATION #2**

*We recommend the Department of Justice seek legislation to clarify state laws regarding funding for Highway Patrol state employer retirement contributions.*

---



# **Independent Auditor's Report and Department Financial Schedules**



## LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor  
 Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
 Cindy Jorgenson  
 Joe Murray

## INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
 of the Montana State Legislature:

### *Introduction*

We have audited the accompanying Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Justice and Board of Crime Control for each of the fiscal years ended June 30, 2016, and 2015, and the related notes to the financial schedules.

### *Management's Responsibility for the Financial Schedules*

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles***

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, liabilities, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinions on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2016, and June 30, 2015, or changes in financial position or cash flows for the years then ended.

***Unmodified Opinions on Regulatory Basis of Accounting***

In our opinion, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, presents fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Justice and the Board of Crime Control for each of the fiscal years ended June 30, 2016, and 2015, in conformity with the basis of accounting described in Note 1.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2016, on our consideration of the Department of Justice's and the Board of Crime Control's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

December 6, 2016

DEPARTMENT OF JUSTICE & BOARD OF CRIME CONTROL  
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

FUND EQUITY: July 1, 2015 PROPERTY HELD IN TRUST: July 1, 2015	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund
	<u>\$ 23,756,527</u>	<u>\$ 272,291,598</u>	<u>\$ 348,523</u>	<u>\$ 639,261</u>	<u>\$ (1,082,637)</u>	<u>\$ (554,777)</u>	<u>\$ 0</u>
<b>ADDITIONS</b>							
Budgeted Revenues & Transfers-In	181,679,428	43,268,858	11,670,714	518,000	665,784	1,550,823	(150)
Nonbudgeted Revenues & Transfers-In	5,840	29,336,609	677		12,720	5,032	
Prior Year Revenues & Transfers-in Adjustments	268,796	13,391	18,159		3,070		150
Direct Entries to Fund Equity	(139,934,320)	12,287,512			2,353,891		(32)
Additions to Property Held in Trust							
<b>Total Additions</b>	<u>\$ 42,019,744</u>	<u>\$ 84,906,370</u>	<u>\$ 11,689,551</u>	<u>\$ 518,000</u>	<u>\$ 3,035,465</u>	<u>\$ 1,555,823</u>	<u>\$ 10,155,731</u>
<b>REDUCTIONS</b>							
Budgeted Expenditures & Transfers-Out	42,818,806	60,363,711	11,612,694	763,924	1,812,446	1,369,484	
Nonbudgeted Expenditures & Transfers-Out	(34,179)	21,691,553	(75,142)	10,680	158,623	18,098	
Prior Year Expenditures & Transfers-Out Adjustments	(346)				(39)		
Reductions in Property Held in Trust	<u>\$ 42,784,281</u>	<u>\$ 81,980,123</u>	<u>\$ 11,623,374</u>	<u>\$ 763,924</u>	<u>\$ 1,971,030</u>	<u>\$ 1,387,582</u>	<u>\$ 10,155,731</u>
<b>Total Reductions</b>							
<b>FUND EQUITY: June 30, 2016</b>	<u>\$ 22,991,990</u>	<u>\$ 275,217,845</u>	<u>\$ 414,699</u>	<u>\$ 393,337</u>	<u>\$ (18,202)</u>	<u>\$ (386,536)</u>	<u>\$ 0</u>
<b>PROPERTY HELD IN TRUST: June 30, 2016</b>							

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF JUSTICE & BOARD OF CRIME CONTROL  
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund
<b>FUND EQUITY: July 1, 2014</b>	<u>\$ 24,104,612</u>	<u>\$ 285,686,027</u>	<u>\$ 289,419</u>	<u>\$ 639,261</u>	<u>\$ 604,001</u>	<u>\$ (389,006)</u>	<u>\$ 0</u>
<b>PROPERTY HELD IN TRUST: July 1, 2014</b>							
<b>ADDITIONS</b>							
Budgeted Revenues & Transfers-In	178,460,120	44,103,100	9,789,800		631,065	1,206,748	303,651
Nonbudgeted Revenues & Transfers-In	971,734	9,434,967	5,011		23,936	4,615	80
Prior Year Revenues & Transfers-In Adjustments	302,045	198,001			8,800		(303,731)
Direct Entries to Fund Equity	(142,271,776)	10,416,680			(467,300)	(149,351)	
<b>Total Additions</b>	<u>37,462,124</u>	<u>64,152,748</u>	<u>9,794,810</u>	<u>243,000</u>	<u>196,500</u>	<u>1,062,012</u>	<u>8,521,513</u>
<b>REDUCTIONS</b>							
Budgeted Expenditures & Transfers-Out	37,862,592	58,744,889	9,717,151		243,000	1,945,056	1,206,064
Nonbudgeted Expenditures & Transfers-Out	(49,701)	18,314,698	18,555			(13,269)	21,718
Prior Year Expenditures & Transfers-Out Adjustments	(2,681)	487,590				(48,648)	
Reductions in Property Held in Trust							
Total Reductions	<u>37,810,210</u>	<u>77,547,177</u>	<u>9,735,706</u>	<u>243,000</u>	<u>1,883,139</u>	<u>1,227,782</u>	<u>8,521,513</u>
<b>FUND EQUITY: June 30, 2015</b>	<u>\$ 23,756,527</u>	<u>\$ 272,291,598</u>	<u>\$ 348,523</u>	<u>\$ 639,261</u>	<u>\$ (1,082,637)</u>	<u>\$ (554,771)</u>	<u>\$ 0</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF JUSTICE & BOARD OF CRIME CONTROL  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>								
Licenses and Permits	\$ 112,631,047	\$ 30,916,087			\$ 616,503			\$ 144,163,637
Taxes	60,553,853	4,217,093	\$ 5,085					64,776,031
Charges for Services	4,789,763	6,374,079	17,098					12,781,372
Investment Earnings		12,190,338	3,963		49,596	\$ 1,550,836		12,194,301
Fines and Forfeits	60,432	118,734	(3,495)					175,671
Monetary Settlements	3,405,134	1,115,049						4,520,183
Capital Contributions	13,777							13,777
Sale of Documents, Merchandise and Property	338,386	17,292			5,525			361,203
Rentals, Leases and Royalties		10,600						10,600
Grants, Contracts, and Donations		127,127			4,516	5,019		136,662
Transfers-in	2,386	16,874,681	2,846,247	\$ 518,000				20,241,315
Capital Asset Sale Proceeds	13,423	89,923			5,000			108,346
Federal Indirect Cost Recoveries	97,286							97,286
Miscellaneous	39,160	513,425	213		435			553,233
Federal	9,417	54,429	8,820,439					8,884,285
Total Revenues & Transfers-In	181,954,064	72,618,858	11,689,551	518,000	681,574	1,555,855		269,017,902
Less: Nonbudgeted Revenues & Transfers-In	5,840	29,336,609	677	518,000	12,720	5,032		29,878,879
Prior Year Revenues & Transfers-In Adjustments	268,796	13,391	18,159		3,070	0	\$ 150	303,566
Actual Budgeted Revenues & Transfers-In	181,679,428	43,268,858	11,670,714		665,784	1,550,823	(150)	238,835,456
Estimated Revenues & Transfers-In	181,679,428	43,262,629	11,737,992		665,784	1,550,823	(150)	238,896,506
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ 6,228	\$ (67,278)	\$ 0	\$ 0	\$ 0	\$ 0	\$ (61,050)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>								
Licenses and Permits		\$ 6,228						\$ 6,228
Investment Earnings			\$ (995)					(995)
Federal			(66,283)					(66,283)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ 6,228	\$ (67,278)	\$ 0	\$ 0	\$ 0	\$ 0	\$ (61,050)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-9.

DEPARTMENT OF JUSTICE & BOARD OF CRIME CONTROL  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>								
Licenses and Permits	\$ 110,785,939	\$ 32,074,045	\$ 4,975	\$ 592,098				\$ 143,452,082
Taxes	59,798,604	4,202,695						64,006,274
Charges for Services	4,427,386	7,161,161	1,587		37,878	\$ 1,206,760		12,834,772
Investment Earnings		6,202,609	2,030					6,204,639
Fines and Forfeits	37,427	202,205	3,495					243,126
Monetary Settlements	3,229,337	733,667						3,963,004
Sale of Documents, Merchandise and Property	342,644	14,830			1,084			358,559
Rentals, Leases and Royalties		14,002						14,002
Grants, Contracts, and Donations		41,177			4,333	4,603		50,113
Transfers-in	970,000	2,411,204	2,548,292	\$ 243,000				6,172,496
Capital Asset Sale Proceeds	4,424	152,073			28,400			184,898
Federal Indirect Cost Recoveries	128,879							128,879
Miscellaneous	6,829	509,564	2,620		7			519,020
Federal	2,432	16,836	7,231,810					7,251,078
Total Revenues & Transfers-In	179,733,900	53,736,068	9,794,810	243,000	663,800	1,211,363	-	245,382,941
Less: Nonbudgeted Revenues & Transfers-In	971,734	9,434,967	5,011	243,000	23,936	4,615	\$ 80	10,683,343
Prior Year Revenues & Transfers-In Adjustments	302,045	198,001			8,800		(303,731)	205,115
Actual Budgeted Revenues & Transfers-In	178,460,120	44,103,100	9,789,800	-	631,065	1,206,748	303,651	234,494,484
Estimated Revenues & Transfers-In	178,460,120	44,663,604	9,770,761		631,065	1,206,748	306,371	235,038,669
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ -	\$ (560,504)	\$ 19,038	\$ -	\$ -	\$ -	\$ (2,720)	\$ (544,186)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>								
Licenses and Permits		\$ (560,499)					\$ (2,720)	\$ (563,219)
Charges for Services		(5)						(5)
Investment Earnings			\$ (1,006)					(1,006)
Federal			20,044					20,044
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ -	\$ (560,504)	\$ 19,038	\$ -	\$ -	\$ -	\$ (2,720)	\$ (544,186)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
 Additional information is provided in the notes to the financial schedules beginning on page A-9.

**DEPARTMENT OF JUSTICE & BOARD OF CRIME CONTROL**  
**SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Agency Legal Services	Central Services Division	Division of Criminal Investigations	Forensic Services Division	Gambling Control Division	Justice Information Technology Services Division	Justice System Support Service	Legal Services Division	Montana Highway Patrol	Motor Vehicle Division	Post Council	Total
Personal Services												
Salaries	\$ 905,480	\$ 1,001,925	\$ 5,996,828	\$ 2,364,059	\$ 2,356,336	\$ 2,334,641	\$ 969,506	\$ 5,598,752	\$ 18,131,278	\$ 4,935,101	\$ 164,352	\$ 44,758,258
Other Compensation					186		2,500			2,500		2,500
Hourly Wages	253,225	355,690	2,364,791	764,382	925,376	821,488	344,645	1,820,002	10,491,985	2,290,613	60,416	20,492,613
Employee Benefits	(4,963)				(4,653)							(9,616)
Personal Services-Other												
Total	<u>1,153,742</u>	<u>1,357,615</u>	<u>8,361,805</u>	<u>3,128,441</u>	<u>3,277,059</u>	<u>3,156,129</u>	<u>1,316,651</u>	<u>7,418,754</u>	<u>28,623,263</u>	<u>6,791,372</u>	<u>224,768</u>	<u>64,809,599</u>
Operating Expenses												
Other Services	65,149	118,240	1,630,436	667,586	146,927	91,982	755,359	21,156,860	2,631,141	8,087,708	75,097	35,426,484
Supplies & Materials	15,915	73,512	690,203	704,335	70,072	457,447	89,684	200,550	2,450,966	739,388	12,892	5,504,965
Communications	14,356	14,685	406,756	74,401	67,726	113,172	35,529	531,807	696,949	1,722,250	5,349	3,682,978
Travel	6,812	12,093	302,110	70,775	64,869	43,703	105,331	230,578	918,458	169,130	8,669	1,932,527
Rent	66,649	94,501	800,893	111,821	295,793	149,914	124,858	374,411	871,489	758,403	585	3,649,317
Utilities			90,222	174,386					34,208	21,207		320,023
Repair & Maintenance	180	11,846	446,621	403,954	20,075	410,878	51,573	31,293	955,891	96,454	1,897	2,430,663
Other Expenses	10,104	66,522	290,866	25,670	94,461	131,231	26,589	251,236	394,704	155,058	4,378	1,450,818
Goods Purchased For Resale			4,465							218		4,683
Total	<u>179,164</u>	<u>391,399</u>	<u>4,662,571</u>	<u>2,232,929</u>	<u>759,923</u>	<u>1,398,327</u>	<u>1,188,923</u>	<u>22,776,735</u>	<u>8,953,805</u>	<u>11,749,599</u>	<u>109,084</u>	<u>54,402,459</u>
Equipment & Intangible Assets												
Equipment		(29,192)	660,913	395,383	44,400	228,172	8,999	28,795	2,293,014	2,422,366		6,052,850
Intangible Assets					48,578					7,360		55,938
Total	<u>(29,192)</u>	<u>660,913</u>	<u>395,383</u>	<u>92,978</u>	<u>228,172</u>	<u>8,999</u>	<u>28,795</u>	<u>2,293,014</u>	<u>2,429,726</u>	<u></u>	<u></u>	<u>6,108,788</u>
Capital Outlay												
Land & Interest In Land						(14,088)						(14,088)
Total						(14,088)						(14,088)
Local Assistance												
From State Sources		3,268,393				1,763,116						5,031,509
From other sources												10
Total		<u>3,268,393</u>				<u>1,763,116</u>						<u>5,031,519</u>
Grants												
From State Sources							1,064,438					1,064,438
From Federal Sources							4,606,341					4,695,424
From Other Sources								26,000				70,850
Grant To Non-Governmental Ent								167,000				167,000
Total							5,670,779	193,000				44,850
Benefits & Claims												
To Individuals								1,189,503				1,189,503
From Other Sources								4,720				4,720
Total								1,194,223				1,194,223
Transfers-out												
Fund transfers		2,386	28,206						1,791,150	990,961		2,812,703
Total	<u>2,386</u>	<u>28,206</u>						<u>1,791,150</u>	<u>990,961</u>			<u>2,812,703</u>
Debt Service												
Loans						45,707						26,501
Total						<u>45,707</u>						<u>26,501</u>
Post Employment Benefits												
Other Post Employment Benefits		31,458										31,458
Employer Pension Expense		15,538										63,733
Total		<u>46,996</u>										<u>95,191</u>
Total Expenditures & Transfers-Out	\$ 1,379,901	\$ 4,990,602	\$ 13,802,577	\$ 5,802,460	\$ 5,927,183	\$ 4,782,628	\$ 9,976,502	\$ 32,602,477	\$ 39,870,082	\$ 21,042,048	\$ 333,852	\$ 140,510,313
EXPENDITURES & TRANSFERS-OUT BY FUND												
General Fund			\$ 3,836,187	\$ 7,607,174	\$ 5,237,506	\$ 4,531,660	\$ 2,311,483	\$ 7,048,331	\$ 1,690,763	\$ 10,187,323	\$ 333,852	\$ 42,784,281
State Special Revenue Fund			1,124,398	4,319,577	371,621	4,653,951	233,462	215,608	24,910,899	36,207,767	9,942,841	\$ 81,980,123
Federal Special Revenue Fund				1,875,826	193,333		2,651	7,449,411	643,248	1,454,481	4,425	11,623,374
Capital Projects Fund						1,273,232	7,174			517,072	246,852	763,924
Enterprise Fund			30,017			7,681				660,607	1,971,030	
Internal Service Fund	\$ 1,379,901							9,976,502		32,602,477		1,387,582
Total Expenditures & Transfers-Out	1,379,901	4,990,602	13,802,577	5,802,460	5,927,183	4,782,628				39,870,082	21,042,048	333,852
Less: Nonbudgeted Expenditures & Transfers-Out	18,098	510	172,391	(6,021)	80,401	(4,537)	78,282		38,380		58,337	21,834,095
Prior Year Expenditures & Transfers-Out Adjustments		(6,000)	(55,516)	410	(3,218)	(368)	17,451		(9,087)	(8,517)		(64,846)
Actual Budgeted Expenditures & Transfers-Out	1,361,803	4,996,092	13,685,703	5,850,071	5,877,533	9,880,769	11,213,310		39,840,220		333,852	118,741,065
Budget Authority	1,361,804	5,830,961	16,027,475	6,602,024	9,179,757	4,787,872	19,551,089	14,785,814	41,336,288	41,306,804	400,262	150,170,149
Unspent Budget Authority	\$ 1	\$ 834,869	\$ 2,341,772	\$ 793,953	\$ 3,329,757	\$ 339	\$ 9,670,320	\$ 3,572,504	\$ 1,496,068	\$ 9,323,092	\$ 66,410	\$ 31,429,084
UNSPENT BUDGET AUTHORITY BY FUND												
General Fund		\$ 36,066	\$ 662,348	\$ 3,264,669	\$ 333	\$ 6	\$ 168,683	\$ 1,000,001	\$ 60,127	\$ 3,844,575	\$ 66,410	\$ 1,993,641
State Special Revenue Fund		649,289	391,480		</td							

**DEPARTMENT OF JUSTICE & BOARD OF CRIME CONTROL  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Agency Legal Services	Central Services Division	Division of Criminal Investigation	Division of Criminal Investigations	Forensic Science Division	Gambling Control Division	Information Technology Services	Legal Services Division	Montana Highway Patrol	Motor Vehicle Division	Office of Consumer Protection	Post Council	Justice System Support Service	Total
Personal Services														
Salaries	\$ 799,540	\$ 919,816	\$ 3,909,941	\$ 3,107,631	\$ 2,239,589	\$ 2,339,870	\$ 2,217,508	\$ 5,274,492	\$ 17,697,516	\$ 3,868,908	\$ 148,333	\$ 918,124	43,441,267	
Employee Benefits	220,787	321,130	1,434,825	1,342,708	684,913	753,855	754,504	1,684,811	10,132,855	1,774,399	(1,445)	54,932	325,923	19,484,196
Personal Services-Other	2,277				8,015				(8,700)				1,592	3,700
Total	<u>1,022,603</u>	<u>1,240,946</u>	<u>5,344,765</u>	<u>4,450,339</u>	<u>2,924,503</u>	<u>3,101,740</u>	<u>2,972,012</u>	<u>6,959,303</u>	<u>27,830,371</u>	<u>5,634,607</u>	<u>(1,445)</u>	<u>203,264</u>	<u>1,247,747</u>	<u>62,930,755</u>
Operating Expenses														
Other Services	56,694	67,550	1,077,492	536,826	321,415	136,608	69,102	14,321,150	2,051,199	8,058,834	47,919	433,909	27,178,698	
Supplies & Materials	7,551	40,844	442,001	282,878	571,549	66,429	280,974	168,065	2,898,775	588,252	6,585	83,324	5,437,229	
Communications	10,004	18,702	284,134	305,541	75,934	72,237	124,045	184,187	675,505	1,828,218	5,212	33,809	3,617,527	
Travel	4,832	2,883	257,529	128,854	23,452	48,437	15,377	167,619	930,990	58,662	9,245	62,209	1,710,089	
Rent	60,745	79,745	523,263	519,217	22,805	284,018	129,059	311,084	818,408	467,003	780	89,767	3,305,893	
Utilities				98,382	160,833			210	28,089	17,581		305,095		
Repair & Maintenance	24,993	330,010	137,742	192,538	21,289	374,593	19,836	1,110,428	105,916	3,375	27,797	2,348,518		
Other Expenses	13,345	24,509	309,878	55,988	50,486	55,542	46,550	222,166	332,222	121,549	6,705	33,332	1,272,272	
Goods Purchased For Resale				10,807	65							10,872		
Total	<u>153,171</u>	<u>259,226</u>	<u>3,224,307</u>	<u>2,076,235</u>	<u>1,419,012</u>	<u>684,626</u>	<u>1,039,700</u>	<u>15,394,319</u>	<u>8,845,615</u>	<u>11,246,015</u>	<u>79,821</u>	<u>764,146</u>	<u>45,186,192</u>	
Equipment & Intangible Assets														
Equipment	76,495	76,077	39,500	266,500	52,350	6,088	11,315	2,034,666	154,798			12,395	2,730,185	
Intangible Assets				266,500	52,350	6,088	11,315	108,745	172,153			12,395	280,898	
Total	<u>76,495</u>	<u>76,077</u>	<u>39,500</u>	<u>266,500</u>	<u>52,350</u>	<u>6,088</u>	<u>11,315</u>	<u>2,143,411</u>	<u>326,951</u>	<u></u>	<u></u>	<u>12,395</u>	<u>3,011,083</u>	
Capital Outlay														
Land & Interest In Land													1,330,000	
Buildings													61,224	
Total													<u>1,330,000</u>	<u>61,224</u>
Local Assistance														
From State Sources	2,977,994						1,754,883						4,732,877	
Total	<u>2,977,994</u>						<u>1,754,883</u>						<u>4,732,877</u>	
Grants														
From State Sources													1,041,167	1,041,167
From Federal Sources													3,901,698	3,982,898
Grant To Governmental Entities								20,040					20,040	
Grant To Non-Governmental Ent								137,000					137,000	
Total								<u>157,040</u>					<u>4,942,865</u>	<u>5,181,105</u>
Benefits & Claims														
To Individuals								1,242,049					10,410	
Total								<u>1,242,049</u>					<u>10,410</u>	<u>1,252,459</u>
Transfers-out														
Fund transfers				35,005		13,010		3,723,144					754,055	4,525,214
Total				<u>35,005</u>		<u>13,010</u>		<u>3,723,144</u>					<u>754,055</u>	<u>4,525,214</u>
Debt Service														
Loans				45,707				29,347					75,054	
Capital Leases				69,501									69,501	
Total				<u>115,208</u>				<u>29,347</u>					<u>144,555</u>	
Post Employment Benefits														
Other Post Employment Benefits	31,277												31,897	
Employer Pension Expense	13,049												59,653	
Total	<u>44,326</u>							<u>46,403</u>					<u>91,550</u>	
Total Expenditures & Transfers-Out	\$ 1,220,101	\$ 4,554,661	\$ 8,726,349	\$ 6,601,079	\$ 4,725,223	\$ 5,653,011	\$ 4,017,800	\$ 28,817,169	\$ 38,880,621	\$ 17,237,741	\$ 8,965	\$ 283,085	\$ 7,721,208	\$ 128,447,013
EXPENDITURES & TRANSFERS-OUT BY FUND														
General Fund		\$ 3,525,617	\$ 4,911,277	\$ 3,524,658	\$ 3,921,611	\$ 3,776,688	\$ 6,627,366	\$ 1,648,026	\$ 7,256,289	\$ 283,085	\$ 2,335,592	\$ 37,810,210		
State Special Revenue Fund		1,002,438	2,299,927	3,058,538	359,586	4,547,465	223,606	21,307,976	9,199,439	8,965	133,222	77,547,177		
Federal Special Revenue Fund			1,515,145	17,882	444,026		2,651	881,827	1,583,580		5,252,394	9,735,706		
Capital Projects Fund									243,000			243,000		
Enterprise Fund			26,606			1,105,546	7,174		743,812			1,883,139		
Internal Service Fund	\$ 1,220,101					7,681						1,227,782		
Total Expenditures & Transfers-Out	<u>1,220,101</u>	<u>4,554,661</u>	<u>8,726,349</u>	<u>6,601,079</u>	<u>4,725,223</u>	<u>5,653,011</u>	<u>4,017,800</u>	<u>28,817,169</u>	<u>38,880,621</u>	<u>17,237,741</u>	<u>8,965</u>	<u>283,085</u>	<u>7,721,208</u>	<u>128,447,013</u>
Less: Nonbudgeted Expenditures & Transfers-Out		21,718	(2,064)	337,613	(17,770)	(7,187)	(83,842)	(5,323)	253,722	(1,129)	(300)	19,380	18,273,446	
Prior Year Expenditures & Transfers-Out Adjustments			(89)	27,195	(1,046)		8,424	(2,168)	530,155	(70,857)	(95)	(8,946)	454,816	
Actual Budgeted Expenditures & Transfers-Out	1,198,383	4,556,814	8,361,541	6,619,895	4,732,409	5,728,430	4,025,291	10,581,180	38,654,656	17,255,805	10,094	283,480	7,710,7	

**Department of Justice  
Notes to the Financial Schedules  
For the Two Fiscal Years Ended June 30, 2016**

**1. Summary of Significant Accounting Policies**

**Basis of Accounting**

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Capital Projects). In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

**Basis of Presentation**

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment. In order to reflect the total operations of the department, the administratively attached Board of Crime Control is combined on the financial schedules with the Department of Justice.

The department uses the following funds:

### **Governmental Fund Category**

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include Highway Patrol operations, collections of gambling license revenues, Montana Law Enforcement Academy operations, Natural Resources Damage Litigation Program, Consumer Protection, Criminal Justice Information Network, Crime Victims Compensation, Criminal Records Information Systems, Motor Vehicle Information Technology System.
- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include crime victim benefits, Medicaid Fraud Control Unit, Violence Against Women.
- ◆ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund to account for the costs related to developing the information technology system related to the production and maintenance of MERLIN.

### **Proprietary Fund Category**

- ◆ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Fund includes Agency Legal Services, which provides legal services to other state agencies.
- ◆ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include MVD state information portal, MVD electronic commerce, and the Liquor License, which is used to fund part of the Gambling Divisions operations and administered by the Department of Revenue.

## **Fiduciary Fund Category**

- ◆ Agency Fund – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The department agency funds includes activity for county and sponsored organization license plate fee collections.

## **General Fund Equity Balance**

The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department's total assets placed in the fund exceed outstanding liabilities, resulting in positive ending General Fund equity balances for each of the fiscal years ended June 30, 2015, and June 30, 2016. These balances reflect the results of the activity of the department and not the fund equity balance of the statewide General Fund.

### **2. Direct Entries to Fund Equity**

Direct entries to fund equity in the General, Special Revenue, and Enterprise funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

All material agency direct entries were made as adjustments to fund equity classifications.

## **Revenue Estimates**

IBARS (the budgeting system) does not allow a House Bill 2 budget to be submitted without revenue estimates equal to or greater than expenditures. The department completes revenue projections and cash analysis to adjust spending if necessary. Since some revenue estimates are necessary to enable revenue to post in SABHRS at a specific time and full estimates are not available, adjustments are necessary at fiscal year-end to net with collected revenue. The department adjusts estimates at fiscal year-end, on all funds, to accurately forecast revenue into the next fiscal year.

### **3. Other**

On the FY15 Schedule of Expenditures and Transfers Out, the activity for the Division of Criminal Investigations (DCI) is presented in two columns because the Department created a new financial structure for FY16. DCI's program was renamed during this time for consistency. Some of the DCI orgs did not get linked to the revised program, which was corrected within days of the start of FY16.

In addition, during the restructure, three of the Motor Vehicle Division's (MVD) orgs were linked to DCI's program. The error was discovered and corrected on July 25, 2015. The correction was not made in time to reflect on the FY15 Schedule of Expenditures and Transfers Out. The Schedule shows an understatement in MVD of \$2,183,895, and an overstatement in DCI of \$2,183,895.

In FY15, expenditures in the Motor Vehicle Division were misstated because the allocation of capitalizable personal service and other service expenditures related to the MERLIN Driver's License Bureau project to the nonbudgeted full accrual equipment offset account did not occur. The personal and operating expenses were overstated by \$2,111,207, and the capitalizable expense was understated by the same amount. FY16's expenditures were recorded correctly.

#### **4. Subsequent Event**

The Department received a settlement, on November 28, 2016, as a result of the State of Montana, ex rel. Tim Fox, Attorney General vs. Merck & Co., Inc. case, in the amount of \$9,949,914.66. The settlement resulted from litigation against Merck & Co., Inc. over its alleged unfair and deceptive promotion of the pain reliever Vioxx in Montana between 1999 and 2004. The amount was deposited into a state special revenue fund for the Office of Consumer Protection, Legal Services Division.

# Report on Internal Control and Compliance



## LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:  
Cindy Jorgenson  
Joe Murray

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Justice and Board of Crime Control (department) for each of the fiscal years ended June 30, 2016, and 2015, and the related notes to the financial schedules, and have issued our report thereon dated December 6, 2016.

#### *Internal Control Over Financial Reporting*

In planning and performing our audit of the financial schedules, we considered the department's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department of Justice's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies

may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described below, that we consider to be a significant deficiency.

The department's controls regarding access to the information system used for vehicle licensing and registration statewide are not sufficient to ensure that only appropriate access to the system is assigned.

#### *Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the department's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### *Department of Justice Response to Findings*

The Department of Justice's response to the findings identified in our audit are described on page C-1 of this report. The department's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

#### *Purpose of this Report*

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA  
Deputy Legislative Auditor  
Helena, MT

December 6, 2016

DEPARTMENT OF JUSTICE

BOARD OF CRIME  
CONTROL

DEPARTMENT AND BOARD RESPONSE



# ATTORNEY GENERAL

## STATE OF MONTANA

Tim Fox  
Attorney General



Department of Justice  
Joseph P. Mazurek Justice Bldg.  
215 North Sanders  
P.O. Box 201401  
Helena, MT 59620-1401

January 30, 2017

Angus Maciver  
Legislative Auditor  
Legislative Audit Division  
Room 160, State Capitol Building  
PO Box 201705  
Helena, Montana 59620-1705

RECEIVED  
FEB 01 2017  
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

The Department of Justice and the Crime Control Division thank you and your audit team for the professionalism displayed while conducting this financial compliance audit. The audit provides valuable and timely information for us to evaluate our programs and accounting processes.

Please accept the following as my response to the audit recommendations presented in the report for the two fiscal years ended June 30, 2016.

### Recommendation #1

**We recommend the Department of Justice update and implement access controls over MERLIN to ensure access is limited based on business needs.**

Concur. The Department changed the MERLIN security options to provide isolated access for maintaining users and table management, removing those no longer needing this access. Additionally, separate security groups were developed for each function.

The Department is building a security team that is responsible for cleaning up the security documentation and writing the security processes, as well as auditing user access. The auditing will be an ongoing process due to the amount of users and applications that MVD utilizes. The team will maintain a log, containing the date of the audit, and which application the user accesses.

TELEPHONE: (406) 444-2026    FAX: (406) 444-3549    E-MAIL: [contactdoj@mt.gov](mailto:contactdoj@mt.gov)    WEB: [mtdoj.gov](http://mtdoj.gov)

#### MONTANA DEPARTMENT OF JUSTICE

Legal Services Division ★ Division of Criminal Investigation ★ Highway Patrol Division ★ Forensic Science Division  
Gambling Control Division ★ Motor Vehicle Division ★ Information Technology Services Division ★ Central Services Division

Recommendation #2

**We recommend the Department of Justice seek legislation to clarify state laws regarding funding for Highway Patrol state employer retirement contributions.**

Concur. The Department has introduced legislation to clarify state laws regarding funding for Highway Patrol state employer retirement contributions. This clarifying language can be found in Senate Bill 57, introduced during the 2017 legislative session.

Sincerely,



TIM FOX  
Attorney General


**Montana Board of Crime Control**

5 S Last Chance Gulch  
PO Box 201408  
Helena MT 59620  
Phone (406)444-3604  
Fax (406)444-4722  
TTY (406)444-7099  
[www.mbcc.mt.gov](http://www.mbcc.mt.gov)

Laura Obert  
Broadwater County  
Commissioner  
**Chairperson**

Rick Kirn  
Fort Peck Executive Board  
Member  
**Vice Chairperson**

Shellie Aune  
Public Representative

Laurie Barron  
Superintendent

Tim Brurud  
Youth Justice Council Chair

Jim Cashell  
Public Representative

William Dial  
Whitefish Police Chief

Brenda Desmond  
4<sup>th</sup> Judicial District Court  
Standing Master

Leo Dutton  
Lewis & Clark Sheriff

Tim Fox  
Attorney General

Wyatt Glade  
Custer County Attorney

Jennie Hansen  
Eastern Bureau Chief  
Probation & Parole

William Hooks  
Chief Public Defender

Danna Jackson  
Assistant US Attorney &  
Tribal Liaison

Beth McLaughlin  
Court Administrator

Angela Russell  
Attorney

Lorraine Wodnik  
Department of Corrections  
Interim Director

**Executive Director:**  
Deb Matteucci

January 20, 2017

Angus Maciver  
PO Box 201705  
Helena, MT 59620-1705

Dear Mr. Maciver;

Thank you for your careful work on the legislative audit for the two fiscal years, ending June 30, 2016. We are in receipt of a copy of the final report. Per this report, there are no findings specific to the Board of Crime Control. As such, we have no comment on the report.

Thank you,

A handwritten signature in black ink, appearing to read "Deb Matteucci".

Deb Matteucci  
Executive Director

RECEIVED

FEB 02 2017

LEGISLATIVE AUDIT DIV.